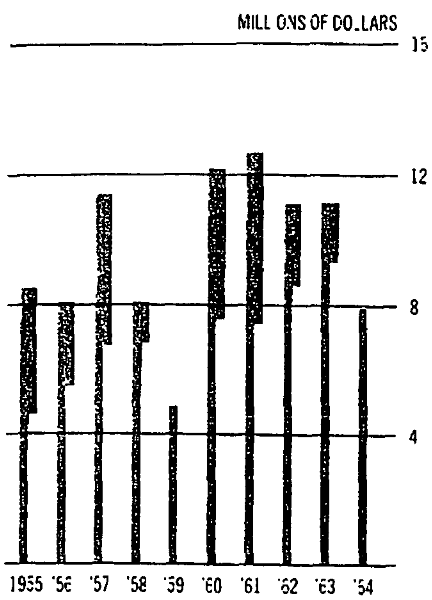
Capital Expenditures and Depreciation



pected to exceed depreciation charges by a small amount.

In October of 1964, ground was broken and construction started on a small plant for the production of tire molds in Santa Maria, California. When completed and in full operation, this plant will serve the west coast facilities of the tire manufacturers.

The company now operates 44 plants in the United States, nine in Canada, eight in Europe and one in Mexico.

FEDERAL TRADE COMMISSION PROCEEDING

Stockholders were advised that in May 1964 the Federal Trade Commission issued a complaint alleging that the acquisition of The S. K. Wellman Company was in violation of the anti-merger provisions of the Clayton Act. The Commission by its complaint requested that an order be entered requiring that the company divest itself of the Wellman business.

Prior to the acquisition in 1963, the company had been advised by its legal counsel that the proposed merger would not violate the anti-trust laws. Under the circumstances, we see no reason to acquiesce in the Commission's request and will continue to resist the divestiture by all legal means available.

UNITED STATES OPERATIONS

Shipments of the U.S. divisions amounted to $196,954,000, representing 82 per cent of the consolidated total. The strong forward surge of the domestic economy and the increase in gross national product brought record production in most industries. Consequently, most company plants operated at higher levels than in the previous year.

Defense business for our United States divisions represents about seven per cent of shipments. Although defense spending was lower in 1964, our volume continued to improve for certain products and total defense business increased slightly.

Competition continued severe in all markets during the year and, although minor price increases were effected for a few products, sales prices remained generally stable. We expect that keen competition will make it difficult to obtain price increases during the present year.

CANADIAN OPERATIONS

Shipments of the Canadian divisions amounted to $26,208,000, representing approximately 11 per cent of consolidated volume.

A large portion of the Canadian volume is in airborne hydraulic equipment for the military services in Canada and the United States. Shipments of these products were lower than in 1963, reflecting a drop in orders.

The balance of Canadian shipments is comprised of products for industry and transportation and all of these product lines posted gains. Shipments of the foundry division were

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